

Media release as at October 20, 2023

Interim report of BB Biotech AG as at September 30, 2023

Biotech equity markets in flux: the impact of rising bond yields and shifting healthcare policies

Expectations that the US central bank would soon reverse its monetary policy stance proved to be premature. The rise in bond yields weighed heavily on biotech stocks as well as the stock market in general. At the same time biotech investors were closely following recent action by US agencies such as the Federal Trade Commission (FTC), which softened its stance of challenging proposed takeover transactions. The US government published a list of the first ten drugs that will be subject to price negotiations under the provisions of the "Inflation Reduction Act". BB Biotech benefited from the dollar's appreciation, but it was also exposed to the sustained selling pressure on equity markets. The portfolio's NAV was down by 2.2% in CHF, 1.2% in EUR and 4.2% in USD in the third quarter of 2023. This resulted in a net loss of CHF 48 mn for the third quarter of 2023. BB Biotech traded within a narrow range during the third quarter, closing slightly higher at CHF 41.35 per share. Secondary offerings recently increased, allowing biotech firms to strengthen their capital structures. Biotech firms have also continued to report impressive fundamental business progress, which has widened the valuation gap even more.

Capital markets have once again found themselves recalibrating expectations in light of evolving strategies from central banks. Rising US bond yields exerted downward pressure on equity markets throughout the third quarter and precipitated notable currency fluctuations, especially a fortification of the US dollar, which benefited BB Biotech with its high proportion of US investments.

The MSCI Pharma Index receded by 1% in USD, while the Nasdaq Biotechnology Index (NBI) was down by 2.8% in the third quarter. Both indices have underperformed on a year-to-date basis, with the NBI Index declining by 5.6% in USD across the first nine months of 2023. For the third quarter 2023, the NAV return was -2.2% in CHF, -1.2% in EUR and -4.2% in USD. For the first nine months of 2023, the portfolio has devalued by 11.8% in CHF, 9.7% in EUR and 10.8% in USD. This corresponds to a net loss of CHF 48 mn for the third quarter and CHF 316 mn for the first nine months of 2023, comparing to a profit of CHF 210 mn and a loss of CHF 323 mn for the same time periods in 2022.

BB Biotech traded within a tight range during the third quarter and closed slightly higher at CHF 41.35 per share per end of September 2023. The return of the share price was 5.9% in CHF, and 6.3% for the EUR listing. YTD, the total return, including the dividend pay-out of CHF 2.85 per share on March 29, 2023, is -20.8% in CHF and in EUR.

In the third quarter, BB Biotech has delisted from the Italian stock exchange with the last trading day per September 4, 2023. Shareholders continue to have the option to trade BB Biotech in CHF on the Swiss Stock Exchange and in EUR due to its listing on the German Stock Exchange ("Deutsche Börse").

Health policy decisions in the US

Investors navigating the healthcare industry have been tasked not only with adapting to central bank actions and evolving forward expectations but also with meticulously tracking policies and political shifts pertinent to healthcare. A case in point is the Federal Trade Commission (FTC), which has modified its posture on substantial takeovers within the drug industry, transitioning from a stringent stance to a more accommodating approach.

Despite prevailing pressures within the drug industry, leading entities in obesity treatment experienced an exceptional quarter, marked by escalating valuations. The IRA-related drug discounting initiative has

emerged as a focus, underscored by the formal selection and publication of its inaugural ten drugs – nine of which are held by major pharmaceutical entities, and one by the biotechnology company Amgen. Investors have largely discounted potential implications but are maintaining a sustained interest in numerous lawsuits by pharmaceutical companies against the Department of Health and Human Services (HHS).

Portfolio management activity in the third quarter

The continued careful positioning of the investment management team was maintained during the third quarter 2023 and no major changes were made to the portfolio. In addition to slight profit-taking on larger positions in the portfolio, BB Biotech participated in the USD 40 mn private placement of Molecular Templates offering in mid-July, allowing the company to fund its pipeline into 2024. Furthermore the investment management team increased their stake in Relay, Celldex, MacroGenics and Sage in the open market in the third quarter.

The sum of the active adjustments within the portfolio and the relative performance differences in the 28 portfolio companies result in a roughly 80/20 weighted portfolio construction, with 80% either profitable or financed to reach profitability and the remaining 20% being the earlier and mid-stage pipeline companies requiring additional financing in the coming years. The 80% part is mostly invested in the mid-cap segment, offering a highly attractive risk/return profile.

Given the continued difference between the investment management team's valuation of the portfolio holdings versus market prices, the investment degree remains at 113.8%, thus close to the upper limit of 115%.

Portfolio milestones in the third quarter

The following portfolio companies presented important milestones in the third quarter:

Argenx, whose shares closed up 26% in USD in Q3 2023, strengthened its mid- and long-term revenue and profit outlook with the successful read out of its registrational trial for subcutaneous efgartigimod to treat chronic inflammatory demyelinating polyneuropathy (CIDP) patients.

Neurocrine, up 19% in USD in Q3 2023, announced positive top-line Phase III data for Crinecerfont for adult congenital adrenal hyperplasia (CAH) patients.

Ionis, up 11% in USD, reported a positive outcome for Olezarsen in people with familial chylomicronaemia syndrome (FCS).

Exelixis, up 14% in USD in Q3 2023, announced positive results from its pivotal trial evaluating Cabozantinib in advanced pancreatic and extra-pancreatic neuroendocrine (NET) tumors.

Alynlam lost 7% in USD in the third quarter, not reflecting impressive POC data for Zilebesiran as monotherapy for treating resistant hypertension patients.

Mersana, down 61% in USD, announced that the registrational trial for its lead antibody drug conjugate upifitamab rilsdotin (UpRi) to treat patients with platinum resistant ovarian cancer failed to reach its primary endpoint.

Sage Therapeutics reported surprising FDA decisions. The US regulatory authority approved Zuranolone as the first and only oral treatment approved for women with post-partum depression but has not approved it for the treatment of adults with major depressive disorder.

Outlook for the fourth quarter and 2024

Biotech fund flows were negative in the first nine months of 2023. More recently, the team observed the opening of the secondary market for public listed companies that strengthened their balance sheet situation following positive milestone announcements.

Fundamental progress continues to be impressive, widening the valuation gap even further according to the team's analysis. Progress in the portfolio will be key, with a steady flow of important clinical and regulatory milestones in the fourth quarter, including Neurocrine, Vertex, Incyte, Celldex und Revolution Medicines.

Ultimately, the investment cases depend on the speed and level of adoption by patients. Continued uptake in already more established products such as Ingrezza by Neurocrine, Caplyta by Intra-Cellular, Opzelura by Incyte and Vyvgart by Argenx, if successful, will drive investment returns.

Given the implications of the Inflation Reduction Act for the drug industry, attention is directed not only towards the negotiation outcomes for the first ten selected drugs but also towards monitoring updates and discerning potential implications arising from multiple lawsuits against the Department of Health and Human Services (HHS).

The investment management team remains unwavering in its conviction that this progress will yield attractive investment returns, whether through equity market repricing of these robust and compelling companies in the mid to long term, or by sparking potential takeover interest in the shorter term.

The quarterly report of BB Biotech AG as at September 30, 2023, can be downloaded at report.bbbiotech.ch/Q323 or www.bbbiotech.com.

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Company profile

BB Biotech AG is an investment company with its registered office in Schaffhausen/Switzerland and listed on the Swiss and German stock exchanges. It has invested in innovative drug developers headquartered primarily in the US and Western Europe. BB Biotech is one of the world's largest investors in this sector. The competent Board of Directors with its long-standing experience set the investment strategy and guidelines. Investment decisions are taken by the experienced investment management team of Bellevue Asset Management AG based on their extensive investment research.

Disclaimer

This release contains forward-looking statements and expectations as well as assessments, beliefs and assumptions. Such statements are based on the current expectations of BB Biotech, its directors and officers, and are, therefore, subject to risks and uncertainties that may change over time. As actual developments may significantly differ, BB Biotech and its directors and officers accept no responsibility in that regard. All forward-looking statements included in this release are made only as of the date of this release and BB Biotech and its directors and officers assume no obligation to update any forward-looking statements as a result of new information, future events or other factors.

Composition of BB Biotech's portfolio as at September 30, 2023

(in % of securities, rounded values)

Argenx SE	15.4%
Ionis Pharmaceuticals	15.0%
Neurocrine Biosciences	10.4%
Vertex Pharmaceuticals	10.3%
Intra-Cellular Therapies	5.9%
Alnylam Pharmaceuticals	5.6%
Moderna	5.5%
Incyte	5.2%
Revolution Medicines	4.7%
Agios Pharmaceuticals	3.6%
Sage Therapeutics	2.6%
Celldex Therapeutics	1.9%
Exelixis	1.9%
Macrogenics	1.7%
Arvinas	1.5%
Relay Therapeutics	1.5%
Crispr Therapeutics	1.5%
Wave Life Sciences	0.9%
Essa Pharma	0.9%
Black Diamond Therapeutics	0.8%
Rivus Pharmaceuticals ¹⁾	0.6%
Beam Therapeutics	0.6%
Scholar Rock Holding	0.6%
Generation Bio Co.	0.5%
Fate Therapeutics	0.4%
Mersana Therapeutics	0.2%
Molecular Templates	0.2%
Esperion Therapeutics	0.2%
Radius Health – CVR	0.0%
Total securities	CHF 2 520.3 mn
Other assets	CHF 0.4 mn
Other payables	CHF (306.6) mn
Net Asset Value	CHF 2 214.1 mn

¹⁾ Unlisted company